

Message Text

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PAGE 01 BONN 11607 141745Z

73

ACTION EUR-25

INFO OCT-01 ADP-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

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LAB-06 SIL-01 OMB-01 NSC-10 SS-15 STR-08 CEA-02 SEC-03

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TO SECSTATE WASHDC 6837

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SUBJECT: BUNDESBANK OFFERS MONEY MARKET PAPER TO BANKS
AND URGES BANKS TO CLOSE CAPITAL CONTROL LOOPHOLES

REF: (A) BONN 10315, (B) A-463

1. SINCE AUGUST 13, THE BUNDESBANK HAS OFFERED BANKS 10-DAY MONEY MARKET PAPER CARRYING AN INTEREST RATE OF 7 PERCENT. EFFECTIVE TOMORROW, THE BANK WILL ALSO OFFER 5-DAY PAPER AT AN INTEREST RATE OF 6-3/4 PERCENT. THE BUNDESBANK APPARENTLY TOOK THIS ACTION IN ORDER TO PREVENT A FURTHER DECLINE IN THE GERMAN CALL MONEY RATE. CALL MONEY HAD DECLINED FROM 11 - 11-1/4 PERCENT AT THE BEGINNING OF LAST WEEK TO 7 - 7-1/4 PERCENT YESTERDAY. IT THUS APPEARS THAT THE BUNDESBANK IS SEEKING TO KEEP CALL MONEY RATES BETWEEN APPROXIMATELY 7 PERCENT AND 13 PERCENT (THE RATE OF THE BUNDESBANK'S SPECIAL REDISCOUNT FACILITY).

UNCLASSIFIED

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PAGE 02 BONN 11607 141745Z

2. IN A LETTER TO THE BANKS, THE BUNDESBANK URGED THEM

TO REFRAIN FROM ISSUING SO-CALLED "GLOBALURKUNDEN". A SECURITY IS CALLED A "GLOBALURKUNDEN" IF ONLY ONE DOCUMENT IS ISSUED FOR A LOAN INSTEAD OF TWO OR MORE BONDS (FRACTIONAL BONDS -- "TEILSCHULDVERSCHREIBUNGEN"). SINCE ONLY INVESTMENTS BY FOREIGNERS IN "TEILSCHULDVERSCHREIBUNGEN" ARE SUBJECT TO THE 25 PERCENT TAX ON THE YIELD OF DOMESTIC BONDS HELD BY FOREIGNERS (COUPON TAX) INVESTMENT IN "GLOBALURKUNDEN" IS MORE ATTRACTIVE THAN INVESTMENT IN FRACTIONAL BONDS. (DESPITE EXEMPTION FROM THE COUPON TAX, THE SALE OF "GLOBALURKUNDEN" TO FOREIGNERS IS SUBJECT TO LICENSING BY THE BUNDESBANK UNDER CURRENT CAPITAL CONTROLS SINCE "GLOBALURKUNDEN" ARE CONSIDERED TO BE SECURITIES ("WERTPAPIERE")). THUS, THEY MAY ONLY BE ACQUIRED BY A FOREIGNER UNDER A SO-CALLED "NON-RESIDENT QUOTA." REF. A)

3. THE BUNDESBANK FURTHER URGED BANKS TO FOLLOW CAUTIOUS POLICIES WITH REGARD TO THE HANDING OUT OF ACTUAL SECURITIES AT THEIR WINDOWS TO RESIDENTS WHO MIGHT SUBSEQUENTLY CARRY THEM OVER THE BORDER AND FINALLY SELL THEM ABROAD TO FOREIGNERS (SO-CALLED "SUITCASE TRANSACTIONS" -- SEE REF. B). THE BUNDESBANK REQUESTED BANKS TO MAKE SURE THAT RECIPIENTS OF DOMESTIC SECURITIES ARE INFORMED THAT THE SALE OF SUCH SECURITIES TO NON-RESIDENTS IS PROHIBITED WITHOUT A LICENSE FROM THE BUNDESBANK. THE BANK FURTHER REQUESTED BANKS TO CALL THIS LICENSING REQUIREMENT TO THE ATTENTION OF FOREIGNERS DELIVERING DOMESTIC SECURITIES FOR DEPOSITING AT A GERMAN BANK. IN ITS LETTER, BUNDESBANK RESERVED THE RIGHT TO TAKE FURTHER ACTION IN CASE BANKS DID NOT ADHERE TO ITS REQUESTS. THE BUNDESBANK INDICATED THAT IT MIGHT WITHDRAW INDIVIDUAL BANK'S LICENSES FOR NON-RESIDENT QUOTAS OR EVEN MIGHT RESTRICT THE BANK'S ACCESS TO BUNDESBANK CREDIT FACILITIES.
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